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FM AMCONSUL KARACHI
TO RUEHC/SECSTATE WASHDC 0481
INFO RUEHDO/AMEMBASSY DOHA 0045
RUEHIL/AMEMBASSY ISLAMABAD 4236
RUEHBUL/AMEMBASSY KABUL 0143
RUEHNE/AMEMBASSY NEW DELHI 1726
RUEHLH/AMCONSUL LAHORE 2511
RUEHPW/AMCONSUL PESHAWAR 4395
RUCPDO/DEPARTMENT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/SECDEF WASHDC
RHEAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC
RUEAIIA/CIA WASHDC
RHMFISS/CDR USCENTCOM MACDILL AFB FL

C O N F I D E N T I A L SECTION 01 OF 02 KARACHI 000358

SIPDIS

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SUBJECT: KARACHI -- SENATOR CASEY MEETING WITH STATE BANK
GOVERNOR

Classified By: Kay Anske, Consul General, 1.4 b and d

¶1. (C) Summary: On May 27, U.S. Senator Robert Casey (D-PA) and the Consul General (CG) met with State Bank of Pakistan (SBP) Governor Dr. Shamshad Akhtar. Dr. Akhtar said that the country's economy is suffering from rising oil prices and suggested creation of a lending pool for developing countries from the revenues of the oil producing countries. She said counterfeiting of the rupee in Afghanistan and the tribal areas has become a problem. According to her, political instability is behind the country's capital flight and depreciating currency. She moved to raise the interest rate 150 basis points (to 12 percent) on May 23 to counter increasing inflation (including food prices) and shore up the rupee. She questioned the ability of new Finance Minister Naveed Qamar to address the country's economic problems or strengthen Pakistan's macro-economic indicators. Dr. Akhtar said she had recently been told by the Finance Minister that SBP autonomy was going to be curtailed?. She added that she is considering vacating her post before the expiration of her term in December. End summary.

Rising Oil Prices Concern Governor

¶2. (C) On May 27, U.S. Senator Robert Casey (D, PA) and the Consul General (CG) met with State Bank of Pakistan (SBP) Governor Dr. Shamshad Akhtar at her office in Karachi. The Governor told the Senator that the Pakistani economy had been negatively impacted by the global increase in oil prices. This caused the country's fiscal deficit to balloon from USD 2) 3 billion to USD 10 billion.

¶3. (C) Dr. Akhtar said that the cost of Pakistan's oil imports has risen by 55 percent since oil prices began their upward spiral. She warned that the resulting fiscal deficit has the potential to eliminate all the past achievements of developing countries in eliminating poverty.

Assistance in Funding Fuel Purchases

¶4. (C) She called for IMF or World Bank financing for developing countries to help abate the impact of increased oil costs. Dr. Akhtar also suggested that oil exporting countries use their increased revenues to set up a reserve that developing countries could borrow from, at concessional rates, to finance oil purchases.

Counterfeiting a Growing Problem

15. (C) Dr. Akhtar said the GOP is concerned about widespread counterfeiting of its banknotes, which occurs primarily in Afghanistan and in the tribal areas of Pakistan. Authorities have found a number of consignments of the fake currency, and the SBP has requested a Federal Investigation Agency (FIA) inquiry. According to Dr. Akhtar, much of the counterfeiting is perpetrated by terrorists using the country's porous borders to move the bogus money from India and Afghanistan. She asked for the Senator's help in promoting new financial crime legislation in Pakistan.

Capital Flight and Currency Depreciation a Problem

16. (C) The Governor pointed to an increase in capital flight from Pakistan in the wake of the Benazir Bhutto assassination. She also cited Bhutto's assassination and the state of emergency as contributing to t